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4<sup>th</sup> July 2008

**BWEA response to material issues in the joint Ofgem / BERR regulatory policy update on Offshore Electricity Transmission**

Dear Sam, Paul,

Representing over 400 corporate members, BWEA is the leading representative for the wind, wave and tidal energy industry in the UK. The membership of the BWEA includes all of the companies currently developing offshore wind projects, the majority of the wave and tidal industry and a diverse range of their service and support industry.

BWEA welcomes this opportunity to provide comments on material issues to the Ofgem / BERR joint regulatory policy update on offshore electricity transmission, published on 13th June 2008. This response is made in advance of BWEA's main response to the consultation in order to provide comments by 4th July, as requested in the consultation. We have comments on three points that we consider to be material:

1. potential changes to the transmission charging arrangements for offshore;
2. OFTO Tender Process; and
3. treatment of Licence Exempt Embedded Transmission projects

**1. Potential changes to the transmission charging arrangements for offshore**

We are concerned that Ofgem has asked National Grid to address, through further consultation on its charging methodology to apply to offshore, the basis of the split between locational and residual charging elements in respect of offshore transmission systems.

One of the principal tenets of the regulated offshore transmission licensing regime is to replicate the onshore market arrangements offshore. It is not clear from the consultation document why Ofgem has therefore asked for this aspect of the

transmission charging arrangements to be reconsidered for offshore transmission networks. Is this to provide further information to Ofgem to support a decision endorsing the current methodology or does this represent a fundamental change in approach for offshore; such that a larger proportion of the costs of the offshore network will be recovered through the locational element of the TNUoS charge than is the case onshore?

Since the regime was first consulted on in 2005, one of the main supporting benefits for the price regulated approach, as opposed to the merchant approach, is the potential for a share of the costs of the onshore substation and offshore platforms to be socialised across the wider GB charging base, to a similar level as onshore substation assets. This aids the economics in support of the development of offshore generation. To potentially remove this benefit at this late stage in the consultation process will have a negative affect on the economics of offshore wind, at a time of increasing costs. A move away from replicating the onshore charging arrangements onshore to offshore will undermine a fundamental principle of support for the price regulated approach and ability to achieve UK Government renewable electricity targets.

In addition, this new uncertainty around charging introduces additional regulatory risk to existing and future projects. Potential investors' perception of this risk may cause undue concern, resulting in funding delays or even withdrawals at this critical phase.

We would therefore ask for Ofgem to clarify its thinking and intentions on this point as soon as possible.

## **2. OFTO Tender Process**

The tender process used to appoint an OFTO will determine the success of the offshore transmission process. Although more information is emerging on the form of the tender documentation, a clear understanding of the mechanism and timescale for tendering is essential.

The June consultation confirms that the bids will be 'firm price'. Securing firm prices from suppliers in what is a limited yet buoyant market will be difficult and the timescale that was detailed in the January 08 consultation, particularly for the enduring projects, will not allow sufficient time for OFTOs to have confidence in their pricing. Further consideration should be given to flexibility post preferred bidder appointment, to enable the preferred bidder to secure prices. This will help secure value for all stakeholders.

## **3. Treatment of Licence Exempt Embedded Transmission connections**

We are concerned that the contractual connection and charging arrangements for Licence Exempt Embedded Transmission connections have not been sufficiently addressed in the consultation process to date. The January 2008 regulatory policy update document stated that a new working group (the Offshore Transmission Embedded Transmission Working Group - OTETWG) would be established to consider embedded transmission connections. The OTETWG reported back on 22nd February 2008. It did not however resolve issues associated with Licence Exempt Embedded Transmission projects.

National Grid has separately consulted on changes required to the Transmission Use of System charging methodology for offshore transmission charging

arrangements. In its December 2007 consultation document, National Grid has noted that charging arrangements will need to be developed to address situations where offshore transmission networks at 132kV connect in to onshore distribution networks. National Grid went on to note that the OTETWG had been established and that it would come forward with proposals as part of the OTETWG report. This has not happened.

There are substantial and material issues associated with the transition of a number of existing Licence Exempt Embedded transmission projects. Where these projects are established distribution connected projects, their ability to meet the legislative requirements to appoint a licensed third party OFTO to own, operate and maintain the offshore network is limited, if not impossible. These projects ability to comply with the transmission requirements, including the Grid Code will be limited to the extent to which the Grid Code applies at present as Licence Exempt Embedded Medium Power Stations.

The ability for these offshore networks to be transferred into separate ownership, when they have not been designed to accommodate this from the outset, must be recognised and addressed pragmatically.

We can foresee a situation where owing to the inability to separate ownership, operation and maintenance of these existing offshore networks, that the third party ownership of these networks is not attractive. This may require the OFTO of last resort provisions to apply. However, if these arrangements have not been enacted in parallel with the competitive tender process then there may be insufficient time to appoint the OFTO of last resort in time for Go Live.

The requirements for the OFTO of last resort must therefore be clarified. For example, is it intended that the OFTO of last resort will be imposed upon the Developer when it does not wish to be an OFTO? If this is the case, will the same requirements for business separation be required? The practical establishment of a separate business in these circumstances will not be achieved quickly. We would not wish to see a situation where the very first offshore transmission projects, representing significant investment by industry, which is crucial for future deployment of offshore renewable generation, are prevented from generating at Go Live owing to regulatory requirements, when they are otherwise perfectly able to provide renewable electricity to UK consumers.

Representatives of the BWEA's offshore grid group, with whom we appreciate Ofgem / BERR's ongoing dialogue on the offshore transmission licensing regime, would be happy to discuss these issues with you in more detail.

Yours sincerely

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**BWEA**